

## STATE APPROPRIATIONS LIMIT

The Arizona Constitution restricts the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. The applicable revenues are primarily tax and fee collections that may be deposited to either the General Fund or dedicated funds. A.R.S. § 41-1273 requires our office to determine how state spending compares to the appropriations limit. Due by February 15, this report is to cover the spending for the prior year, the current year, and next year.

Our calculations are as follows:

|   | <u>FY 2004</u>        | <u>FY 2005</u> | <u>FY 2006</u> |
|---|-----------------------|----------------|----------------|
|   | (dollars in billions) |                |                |
| Arizona Personal Income                                 | \$154.90              | \$166.20       | \$179.20       |
| Appropriations Limit (7.41% of Arizona Personal Income) | \$11.48               | \$12.32        | \$13.28        |
| Spending subject to the Limit                           | \$8.89                | \$10.25        | \$11.45        |
| Spending as a % of Personal Income                      | 5.74%                 | 6.17%          | 6.39%          |

As you can see from the above table, FY 2005 Arizona Personal Income is projected to be \$166.2 billion. With a 7.41% limit, the spending cap is \$12.32 billion. In comparison, the JLBC budget proposes a revised FY 2005 spending level subject to the limit of \$10.25 billion, which is 6.17% of personal income. Under the FY 2006 JLBC baseline budget, spending is \$11.45 billion, or 6.39% of personal income. Please note that this estimate exceeds the JLBC's \$8.36 billion FY 2006 General Fund spending estimate, due to the inclusion of dedicated funds. On the reverse side of this sheet, there is a numerical history of the appropriations limit.

In general, the revenues subject to the appropriations limit consist of (1) taxes, (2) university collections, and (3) licenses, fees and permits. These revenues may be either general or earmarked for special purposes. The appropriation of certain other state revenues is not subject to the limit. These revenues include (1) interest and dividends, (2) receipts from sales, rentals and

consideration for services, (3) federal grants, (4) donations and gifts, and (5) amounts received by the state in the capacity of trustee, custodian or agent.

The Arizona Constitution requires the Economic Estimates Commission (EEC) to determine the estimate of total personal income used to compute the appropriations limit. The EEC is composed of three members: the Director of the Department of Revenue and two members who are knowledgeable in the field of economics - one appointed by the Speaker of the House and one by the President of the Senate.

To save paper, we have not attached a copy of our detailed calculations. If you would like a full copy of the report or have any other questions, please contact our office.

# HISTORY OF APPROPRIATIONS LIMIT

| Fiscal Year | Personal Income<br>(Billions) | Statutory Limit<br>% | Approp. Limit<br>(Billions) | Actual Approp.<br>(Billions) | Actual Appr.<br>As % of PI |
|-------------|-------------------------------|----------------------|-----------------------------|------------------------------|----------------------------|
| 1980        | \$20.65                       | 7.00%                | \$1.446                     | \$1.437                      | 6.96%                      |
| 1981        | 24.70                         | 7.00                 | 1.729                       | 1.718                        | 6.96                       |
| 1982        | 28.50                         | 7.00                 | 1.995                       | 1.903                        | 6.68                       |
| 1983        | 31.60                         | 7.18                 | 2.270                       | 1.918                        | 6.07                       |
| 1984        | 33.50                         | 7.18                 | 2.410                       | 2.187                        | 6.53                       |
| 1985        | 37.00                         | 7.18                 | 2.656                       | 2.414                        | 6.52                       |
| 1986        | 41.30                         | 7.18                 | 2.965                       | 2.752                        | 6.66                       |
| 1987        | 45.40                         | 7.18                 | 3.260                       | 3.068                        | 6.76                       |
| 1988        | 49.30                         | 7.18                 | 3.540                       | 3.370                        | 6.84                       |
| 1989        | 53.00                         | 7.18                 | 3.800                       | 3.676                        | 6.94                       |
| 1990        | 57.60                         | 7.18                 | 4.136                       | 3.781                        | 6.56                       |
| 1991        | 62.60                         | 7.18                 | 4.495                       | 4.156                        | 6.64                       |
| 1992        | 66.30                         | 7.23                 | 4.793                       | 4.372                        | 6.60                       |
| 1993        | 69.10                         | 7.23                 | 4.996                       | 4.524                        | 6.55                       |
| 1994        | 72.50                         | 7.23                 | 5.242                       | 4.758                        | 6.56                       |
| 1995        | 80.42                         | 7.23                 | 5.814                       | 5.424                        | 6.74                       |
| 1996        | 88.00                         | 7.23                 | 6.362                       | 5.606                        | 6.37                       |
| 1997        | 94.90                         | 7.23                 | 6.861                       | 6.086                        | 6.41                       |
| 1998        | 102.70                        | 7.23                 | 7.425                       | 6.396                        | 6.23                       |
| 1999        | 113.00                        | 7.41                 | 8.373                       | 7.144                        | 6.32                       |
| 2000        | 120.00                        | 7.41                 | 8.892                       | 7.486                        | 6.24                       |
| 2001        | 127.60                        | 7.41                 | 9.455                       | 7.969                        | 6.25                       |
| 2002        | 142.80                        | 7.41                 | 10.581                      | 8.063                        | 5.65                       |
| 2003        | 147.90                        | 7.41                 | 10.959                      | 7.962                        | 5.38                       |
| 2004        | 154.90                        | 7.41                 | 11.478                      | 8.892                        | 5.74                       |
| 2005        | 166.20                        | 7.41                 | 12.315                      | 10.250                       | 6.17                       |
| 2006        | 179.20                        | 7.41                 | 13.279                      | 11.455                       | 6.39                       |

## ANNUAL AND CUMULATIVE GROWTH OF PERSONAL INCOME AND ACTUAL APPROPRIATIONS

| Fiscal Year | Annual %<br>Growth in<br>Pers. Income | Annual %<br>Growth in<br>Actual Appr. |
|-------------|---------------------------------------|---------------------------------------|
| 1981        | 19.61%                                | 19.55%                                |
| 1982        | 15.38                                 | 10.77                                 |
| 1983        | 10.88                                 | 0.79                                  |
| 1984        | 6.01                                  | 14.03                                 |
| 1985        | 10.45                                 | 10.38                                 |
| 1986        | 11.62                                 | 14.00                                 |
| 1987        | 9.93                                  | 11.48                                 |
| 1988        | 8.59                                  | 9.84                                  |
| 1989        | 7.51                                  | 9.08                                  |
| 1990        | 8.68                                  | 2.86                                  |
| 1991        | 8.68                                  | 9.92                                  |
| 1992        | 5.91                                  | 5.20                                  |
| 1993        | 4.22                                  | 3.48                                  |
| 1994        | 4.92                                  | 5.17                                  |
| 1995        | 10.92                                 | 14.00                                 |
| 1996        | 9.43                                  | 3.36                                  |
| 1997        | 7.84                                  | 8.56                                  |
| 1998        | 8.22                                  | 5.09                                  |
| 1999        | 10.03                                 | 11.69                                 |
| 2000        | 6.19                                  | 4.79                                  |
| 2001        | 6.33                                  | 6.45                                  |
| 2002        | 11.91                                 | 1.18                                  |
| 2003        | 3.57                                  | (1.25)                                |
| 2004        | 4.73                                  | 11.68                                 |
| 2005        | 7.30                                  | 15.27                                 |
| 2006        | 7.82                                  | 11.76                                 |
| Cum. Growth | 767.80%                               | 697.15%                               |